

Alex Roepers' Light-Touch Activism Pays Off for Atlantic

By Stephen Taub

The New York-based manager, who bypasses scathing public attacks in favor of behind-the-scenes meetings to effect change in companies, had one of his best-ever years last year.

A kinder, gentler approach to shareholder activism paid off big-time in 2013 for Alexander Roepers's Atlantic Investment Management, which had one of its best years in its 25-year history.

The New York-based firm's Cambrian Fund, a long-only activist fund that invests in just six or seven stocks and its largest fund, jumped 38.3 percent, while the firm's four other smaller funds posted gains of at least 20 percent. That includes its new, small Cambrian Japan fund, which rose 42.9 percent in its first year, according to the firm's year-end report obtained by Alpha. Its U.S. equity long-short fund, called AJR/Quest, rose 20.3 percent despite an average net exposure of 41 percent. Atlantic's two-year-old Cambrian Global fund, whose portfolio of 20 stocks includes its highest-conviction investments from the U.S., Europe and Japan, rose 28.8 percent. Cambrian Europe, which deploys the same strategy as the Cambrian Fund but with European companies, rose 22.3 percent in 2013 after surging 40.8 percent in 2012.

Atlantic attributes a big part of its success to its more mellow approach to activism. Roepers, who manages a total of \$1.9 billion, calls his style "constructive shareholder activism." He claims that in 2013 Atlantic successfully unlocked value in each of its U.S. core holdings as well as several European

and Japanese core positions. Among the activist stakes that were large contributors to 2013 performance: Owens-Illinois, Oil States International, Baker Hughes, Atos, Harman International and Rockwood Holdings.

"Our brand of activism includes providing management teams and boards of directors with customized written proposals to enhance and accelerate shareholder value creation," Roepers explains in the report. "We do this in a respectful but assertive manner with compelling, tailored, win-win solutions for management and shareholders alike."

He adds that the hedge fund firm works behind the scenes, allowing management to take credit for improved share performance "triggered by our proposals." Roepers says his team will bring its case to independent board members when it is appropriate and "selectively discuss" its theses in public forums and the financial media.

Unlike many other activists, such as Starboard Value's Jeffrey Smith, ValueAct Capital's Jeffrey Ubben or Trian Partners' Nelson Peltz, Roepers does not seek board seats. He estimates that his activist strategy has been successful at more than 100 companies globally over the past 25 years in the U.S. and almost ten years in Europe and Japan.

And Roepers says the future looks at least as bright for his strategy. He points out in the report that in the U.S. and Europe espe-

cially, there is still a conducive environment for some sort of corporate action, including restructurings, share buybacks, spin-offs and demergers, as well as shareholder activism and corporate takeovers. He says both private equity firms and corporations are searching for opportunities to deploy substantial sums of capital “after years of hesitation and retrenchment.”

Roepers notes that U.S. companies alone have a total of \$2.7 trillion in cash, which can be used for acquisitions, growth capital spending and share buybacks, while private equity funds have \$400 billion in equity capital. He estimates these sources of capital can result in more than \$1 trillion worth of deals in the coming years.

In any case, at year-end the more diversified — at least relatively speaking — Global fund had 19 holdings, with the ten largest positions accounting for 71 percent of assets. They were Baker Hughes, a U.S.-based

provider of oilfield services; Atos, a French multinational Internet technology services company; Owens-Illinois, a U.S. manufacturer of glass containers; Technip, a French company that does project management, engineering and construction for the energy industry; Harman International, a U.S. provider of automotive infotainment systems and automotive, consumer and professional audio systems; Oil States International, an energy products and services firm that is also a target of Barry Rosenstein’s Jana Partners and David Einhorn’s Greenlight Capital; Safran, a France-based provider of aerospace engines; MTU Aero Engines Holding, a German engine manufacturer and provider of commercial engine maintenance services; Sulzer, a Switzerland-based manufacturer of processing equipment for the oil and gas, water and power industries; and Cameron International, a U.S. producer of equipment for energy companies.